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SUBJECT: NICARAGUA: 2009 ECONOMIC INDICATORS BLEAK SO FAR

Summary

11. (U) Key Nicaraguan economic indicators from the first quarter of 2009 forecasted a challenging future for the rest of the year. Not surprisingly, remittances from Nicaraguans working abroad have suffered declines given the economic slowdown in the United States. Imports and exports have both slowed as well, resulting in a decline in Nicaragua's trade deficit. Agricultural production, a mainstay income-generator for the country, has dramatically decreased across most commodities. Nicaragua's level of indebtedness remains largely the same at approximately \$4.6 billion in total. One positive sign, however, is a dramatic decrease in the rate of inflation from one year ago. Accumulated year-to-date inflation in May 2009 was only 0.12%, whereas in May 2008 it stood at 9.43%. End Summary.

Remittances Suffer

12. (U) According to data from the Nicaraguan Central Bank (BCN), Nicaragua benefited from \$199.7 million in overseas remittances during the fi

Imports and Exports: Both Down

13. (U) During the first quarter of 2009, total exports from Nicaragua were \$475 million in goods and services, a 6% decline from its exports during the first quarter of 2008 (\$505 million). Imports also experienced a substantial reduction of approximately 22%, decreasing from \$1.1 billion during the first quarter of 2008 to \$909 during the first quarter of 2009. As a result, the trade deficit declined between the first quarters of 2008 and 2009.

Economic Growth Sluggish

14. (U) Nicaraguan GDP grew by 1.2% during the first quarter of 2009, a significant decrease compared to 3.1% growth during the same period in

Inflation Down Dramatically

15. (U) A welcome positive economic sign was a dramatic decrease in the rate of inflation. Accumulated year-to-date inflation in May 2009 was 0.12%, a significant decrease from its 9.43% year-to-date rate in May 2008. Inter-annual inflation has decreased substantially as well, declining from 21.74% in May of 2008 to 4.1% in May of 2009. The GON estimates that 2009 will conclude with an accumulated inflation rate of 6%. The dramatic decrease in the inflation rate is largely a result of the sharp decline in worldwide petroleum prices, and also a decrease in the prices of key foodstuffs. The best measurement of the decrease in local food prices is the cost of the basic Nicaraguan consumption basket (the so-called "canasta basica"), composed of 53 basic commodities including dairy, grains, meat, produce, tortillas, bread, utilities, housing, transportation, and fuel. Between 2007 and 2008 the price of the basket increased by 11.6%, whereas between 2008 and 2009 it showed an increase of only 1.4%.

Debt

16. (U) During the first quarter of 2009, total GON debt stood at \$4.6 billion, equivalent to 72.4% of GDP. This figure demonstrates a 1.7% increase from December of 2008 due to greater internal indebtedness. During the same period, external debt totaled \$3.5 billion, representing 76% of total debt and 55% of GDP. Nicaragua's external bilateral creditors include members of the Paris Club and Latin America (60.4%); multilateral creditors include the World Bank, the Inter-American Development Bank, the International Monetary Fund and the Central American Bank of Integration (39%), and private creditors such as commercial banks (0.3%). Internal debt totaled \$1.1 billion, comprising 24% of total debt and 17% of Nicaragua's GDP. The GON's internal debt obligations are primarily indemnification bonds, representing 65% of internal debt. These bonds were issued as compensation to individuals whose property was confiscated by the Sandinista National Liberation Front (FSLN) government during the 1980's. The remainder of Nicaragua's debt is made up of bonds and notes issued by the GON and the Central Bank.

Comment

17. (U) The Nicaraguan economy, like many others in the region, has significantly deteriorated since last year and most independent observers agree that the forecast is dire, at least in the short to medium term. Key challenges that remain are difficult negotiations with the IMF over Nicaragua's next disbursement under its Poverty Reduction and Growth Facility program and efforts to make up for the cancellation of budget support funds from European donors who withdrew such support in the wake of the fraudulent 2008 municipal elections.